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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES - Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

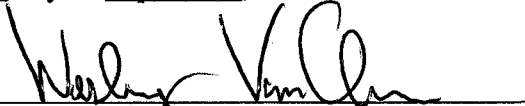
IN THE MATTER OF THE JOINT
APPLICATION OF VERIZON CALIFORNIA,
INC., VERIZON LONG DISTANCE, LLC,
VERIZON ENTERPRISES SOLUTIONS, LLC,
FRONTIER COMMUNICATIONS
CORPORATION, NEW COMMUNICATIONS
OF THE SOUTHWEST INC., AND NEW
COMMUNICATIONS ONLINE AND LONG
DISTANCE, INC., FOR APPROVAL OF THE
TRANSFER OF VERIZON'S LOCAL
EXCHANGE AND LONG DISTANCE
BUSINESS.

DOCKET NO. T-01846B-09-0274
T-03289A-09-0274
- T-03185A-09-0274
T-20679A-09-0274
T-20680A-09-0274
T-20681A-09-0274

**STAFF'S NOTICE OF FILING DIRECT
TESTIMONY**

Staff of the Arizona Corporation Commission hereby files the Direct Testimony of Staff
Witness Armando F. Fimbres in the above-referenced matter.

RESPECTFULLY SUBMITTED this 21st day of September, 2009.


Wesley C. Van Cleve, Staff Counsel
Maureen A. Scott, Senior Staff Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies
of the foregoing filed this
21st day of September, 2009 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

SEP 22 2009

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AZ CORP COMMISSION
DOCKET CONTROL

2009 SEP 21 P 4: 58

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1 Copy of the foregoing mailed this
2 21st day of September, 2009 to:

3 Jeffrey W. Crockett, Esq.
4 SNELL & WILMER
5 One Arizona Center
6 400 East Van Buren Street
7 Phoenix, Arizona 85004

8 Thomas H. Campbell, Esq.
9 Michael T. Hallam, Esq.
10 LEWIS AND ROCA
11 40 North Central Avenue
12 Phoenix, Arizona 85004

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DIRECT

TESTIMONY

OF

ARMANDO F. FIMBRES

**DOCKET NOS. T-01846B-09-0274
T-03289A-09-0274
T-03189A-09-0274
T-20679A-09-0274
T-20680A-09-0274
T-20681A-09-0274**

**IN THE MATTER OF THE JOINT APPLICATION
OF VERIZON CALIFORNIA, INC., VERIZON LONG
DISTANCE, LLC; VERIZON ENTERPRISES SOLUTIONS,
LLC, FRONTIER COMMUNICATIONS CORPORATION, NEW
COMMUNICATIONS OF THE SOUTHWEST INC., AND NEW
COMMUNICATIONS ONLINE AND LONG DISTANCE, INC.
FOR APPROVAL OF THE TRANSFER OF VERIZON'S LOCAL
EXCHANGE AND LONG DISTANCE BUSINESS**

SEPTEMBER 21, 2009

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE JOINT APPLICATION)
OF VERIZON CALIFORNIA, INC., VERIZON)
LONG DISTANCE, LLC; VERIZON)
ENTERPRISES SOLUTIONS, LLC, FRONTIER)
COMMUNICATIONS CORPORATION, NEW)
COMMUNICATIONS OF THE SOUTHWEST INC.,)
AND NEW COMMUNICATIONS ONLINE AND)
LONG DISTANCE, INC. FOR APPROVAL OF THE)
TRANSFER OF VERIZON'S LOCAL EXCHANGE)
AND LONG DISTANCE BUSINESS)
_____)

DOCKET NOS: T-01846B-09-0274
T-03289A-09-0274
T-03198A-09-0274
T-20679A-09-0274
T-20680A-09-0274
T-20681A-09-0274

DIRECT

TESTIMONY

OF

ARMANDO FIMBRES

PUBLIC UTILITIES ANALYST V

ON BEHALF OF

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

SEPTEMBER 21, 2009

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EXECUTIVE SUMMARY
VERIZON CALIFORNIA, INC., VERIZON LONG DISTANCE, LLC, VERIZON
ENTERPRISES SOLUTIONS, LLC, FRONTIER COMMUNICATIONS
CORPORATION, NEW COMMUNICATIONS OF THE SOUTHWEST INC., AND NEW
COMMUNICATIONS ONLINE AND LONG DISTANCE, INC.
DOCKET NOS. T-01846B-09-0274, T-03289A-09-0274, T-031984-09-0274,
T-20679A-09-0274, T-20680A-09-0274, T-20681A-09-0274

The Joint Application of Verizon and Frontier filed in Arizona is similar to those filed in 13 other states across the country and with the Federal Communications Commission ("FCC") seeking approval for a nation-wide agreement that was signed by the Applicants on May 13, 2009. There are two major parts that comprise the Arizona Application: (1) the transfer of Verizon California ("VCA") ILEC areas in La Paz County on Arizona's western border to Frontier and (2) the transfer of long distance customers served by Verizon Long Distance ("VLD") and Verizon Enterprise Solutions ("VES") within the areas served by VCA in Arizona to Frontier. VLD and VES are Arizona affiliates of VCA.

The Applicants requested the following actions by the Arizona Corporation Commission ("Commission") in connection with their Application:

- that the Commission transfer the local exchange services Certificate of Convenience and Necessity ("CC&N") of VCA to Frontier;
- that the Commission transfer the payphone assets and CC&N of VCA to Frontier;
- that the Commission approve the transfer of long distance customers from VLD and VES to Frontier in the local exchange service areas of VCA, grant a waiver of the Commission's Slamming Rules¹ in connection with the transfer, and a transfer of VCA's long-distance customers in the VCA area to a new Frontier long distance provider;
- that the Commission allow Frontier to adopt the tariffs of VCA, VLD and VES;
- that the Commission designate Frontier in the service areas proposed for transfer as an Eligible Telecommunications Carrier ("ETC") with the same status as VCA;
- that the Commission grant a waiver of the Affiliated Interest Rules, if the rules are found to apply;
- that the Commission approve the transfer of assets pursuant to A.R.S. § 40-285 and take such other measures and provide any additional approvals as the Commission may deem necessary to allow the parties to complete the transaction; and,
- that the Commission approve the transaction within 120 days of the Application, dated May 29, 2009.

Staff recommends approval of the Joint Application with the following conditions:

1. That Frontier assume or honor all obligations under VCA's current interconnection agreements, tariffs, and other existing contractual arrangements of VCA.

¹ AAC R14-2-1901 et seq., Consumer Protections For Unauthorized Carrier Changes

2. At the conclusion of all pending dockets, that Frontier comply with all previous Commission orders and all future Commission Orders.
3. That Frontier maintain the Average Answer Time for the Residential Service Order Call Center response of VCA from January 2008 to June 2009 (69.1 seconds) for the five years following the effective date of an Order in this matter. Evidence of such should be provided annually by April 15th of each year for the prior year.
4. That Frontier will file in this Docket with the Arizona Commission any California or Nevada Commission Order related to this matter that bears on Frontier's management and operations located in Arizona within 30 days of its issuance.
5. That Frontier in an annual compliance filing due by April 15th of each year, provide monthly comparative service quality and operating information to ensure that the Frontier Arizona VCA local exchange areas are served comparably to the Frontier California VCA local exchange areas that Frontier has acquired in transactions related to this matter.
6. That for the five years following the effective date of an Order in this matter, Frontier's three Arizona ILECs not allow their monthly service quality and operating performance to decline below their average monthly performance for the period of January 2008 to June 2009. Evidence of such should be provided annually by April 15th of each year for the prior year.
7. That the annual ratio of Frontier complaints to access lines remain the same as the annual ratios of VCA for the 2006 through 2008 period. Evidence of such should be provided annually by April 15th of each year for the prior year.
8. That the existing rate moratorium for the VCA service territory remain in effect until the December 9, 2010 expiration date, as ordered by Decision No. 68348.
9. That Frontier commit to local exchange investment levels on a per access line basis that at least equals the average investment per access line of its three Frontier Arizona ILECs for the five years following the effective date of an Order in this matter.
10. That Frontier report to the Commission (1) the number of VoIP lines served by any Frontier affiliate within the Frontier service area and by Frontier's three Arizona ILECs by April 15th of each year for the prior year and (2) that Frontier attest that the Arizona State assessments² for VoIP services provided by any Frontier affiliate or ILEC have been properly paid. Such attestation should be made as an addendum to Frontier's Annual Reports due by April 15th of each year for the prior year.
11. That Verizon attest that Arizona assessments for any VoIP services provided by Verizon affiliates in Arizona have been properly paid. Such attestation should be

² Utility Fund, 911/E911, Telephone Relay Service ("TRS")

made by all Verizon affiliates holding CC&Ns in Arizona as an addendum to Annual Reports due by April 15th of each year for the prior year.

12. That the Applicants provide a final count of employees impacted by the proposed transfer and comprehensive explanation of the treatment of such employees before an Order is issued in this matter.
13. That for one year following the close of the proposed transfer or until Verizon and Frontier inform the Commission by filing an affidavit with Docket Control, as a compliance item in this Docket, that the proposed transaction activities are completed, Frontier shall provide written notification with a filing in Docket Control and to the individual members of the Commission 60 days prior to any planned transfer-related Arizona workforce layoffs; any planned transfer-related Arizona plant closings; and any planned transfer-related Arizona facility closings.
14. That if any Frontier Arizona affiliate chooses to conduct layoffs or facility closings in Arizona that are attributable to the proposed transfer, it shall file a report, within two months of the effective date of the layoffs or closings, with the Commission stating why it was necessary to do so and what efforts the Company made or is making to re-deploy those individuals elsewhere in the Company. This report shall also state whether any savings associated with facility closings have been re-invested in the Company's Arizona operations, and if not, why. This report shall be filed with Docket Control for one year following close of the proposed transfer or until Frontier informs the Commission by filing an affidavit with Docket Control that transfer related activities are completed, whichever comes last.
15. That within 60 days of the transaction's consummation, Frontier and Verizon notify the Commission, through Docket Control, of such closing.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Armando Fimbres. I am a Public Utilities Analyst V employed by the
4 Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division
5 ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.
6

7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst V.**

8 A. In my capacity as a Public Utilities Analyst, I provide information and analysis to Staff on
9 telecommunications tariff filings, applications for Certificates of Convenience &
10 Necessity ("CC&N"), complaints between service providers, transfer applications that
11 impact local exchange and long distance services, and a variety of industry matters, such
12 as Broadband, Voice over the Internet Protocol ("VoIP") and Wireless.
13

14 **Q. Please describe your educational background and professional experience.**

15 A. I received a Bachelor of Science degree from the University of Arizona in 1972 and have
16 taken business and management courses at Seattle University, Northwestern University
17 and the University of Southern California. I was employed for twenty-nine years in Bell
18 System or Bell System-derived companies, such as Western Electric, Pacific Northwest
19 Bell, U S WEST and Qwest. The last twenty years of my Bell System
20 telecommunications experience were in operations planning, corporate planning, or
21 strategic planning roles with a special emphasis from 1994 to 2000 on competitive and
22 strategic analysis for the Consumer Services Marketing division of U S WEST and
23 similarly from 2000 to 2001 for Qwest. I have been with the Commission's Utilities
24 Division since April 2004.
25

1 **BACKGROUND**

2 **Q. What is the purpose of your testimony?**

3 A. I will present Staff's review and analysis of the transfer application filed in this matter as
4 well as Staff's response to the testimony filed by Timothy McCallion and Daniel
5 McCarthy on behalf of Verizon and Frontier ("the Applicants"), respectively. My
6 testimony concludes with Staff's proposed conditions and recommendations in this matter.
7

8 **Q. Please summarize Staff's understanding of the transfer application filed by Verizon**
9 **and Frontier on May 29, 2009.**

10 A. According to the Company, the Application filed in Arizona is similar to those filed in 13
11 other states³ across the country and with the Federal Communications Commission
12 ("FCC") seeking approval for a nation-wide agreement that was signed by the Applicants
13 on May 13, 2009. Approximately 6,000 local exchange access lines are proposed for
14 transfer in Arizona is subject. There are two major parts that comprise the Arizona
15 application: (1) the transfer of Verizon California ("VCA") ILEC areas in La Paz County
16 on Arizona's western border to Frontier and (2) the transfer of long distance customers
17 served by Verizon Long Distance ("VLD") and Verizon Enterprise Solutions ("VES")
18 within the areas served by VCA in Arizona to Frontier. VLD and VES are Arizona
19 affiliates of VCA.
20

³ California, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia, Wisconsin

1 **Q. Briefly describe the Companies' request in their May 29, 2009 Application?**

2 A. The Applicants formally requested that the Commission take the following actions in
3 response to their Applications⁴.

- 4
- 5 - that the Commission transfer the local exchange services Certificate of Convenience
6 and Necessity ("CC&N") of VCA to Frontier;
 - 7 - that the Commission transfer the payphone assets and CC&N of VCA to Frontier;
 - 8 - that the Commission approve the transfer of long distance customers from VLD and
9 VES to Frontier in the local exchange service areas of VCA, grant a waiver of the
10 Commission's Slamming Rules⁵ in connection with the transfer, and a transfer of
11 VCA's long-distance customers in the VCA area to a new Frontier long distance
12 provider;
 - 13 - that the Commission allow Frontier to adopt the tariffs of VCA, VLD and VES;
 - 14 - that the Commission designate Frontier in the service areas proposed for transfer as
15 an Eligible Telecommunications Carrier ("ETC") with the same status as VCA;
 - 16 - that the Commission grant a waiver of the Affiliated Interest Rules, if the rules are
17 found to apply;
 - 18 - that the Commission approve the transfer of assets pursuant to A.R.S. § 40-285 and
19 take such other measures and provide any additional approvals as the Commission
20 may deem necessary to allow the parties to complete the transaction; and,
 - 21 - that the Commission approve the transaction within 120 days of the Application,
22 dated May 29, 2009.

⁴ Pages 15 – 16, May 29, 2009, In the Matter of the Joint Application of Verizon California, Inc., Verizon Long Distance, LLC; Verizon Enterprises Solutions, LLC, Frontier Communications Corporation, New Communications of the Southwest Inc., and New Communications Online and Long Distance, Inc. for Approval of the Transfer of Verizon's Local Exchange and Long Distance Business.

⁵ AAC R14-2-1901 et seq., Consumer Protections For Unauthorized Carrier Changes

STAFF'S ANALYSIS OF THE PROPOSED TRANSFER APPLICATION

Q. Did the Company request expedited approval?

A. Yes.

Q. Why did the Applicants want expedited approval of their Application?

A. The Applicants requested an expedited process because of Frontier's intentions to apply for broadband stimulus funds in accordance with provisions in the American Reinvestment and Recovery Act of 2009.

Staff believes that it is in the public interest to facilitate, if possible, the deployment of broadband in the VCA area. Staff believes an expedited process will allow Frontier to apply for Stimulus Funding available through the American Recovery and Reinvestment Act of 2009 which According to the Company will be utilized in broadband deployment.

Q. Does Frontier need to apply for a CC&N for Payphone service?

A. No. Despite having requested a transfer of payphone assets and associated CC&N of VCA to Frontier, Staff and the Applicants agreed that such assets and the corresponding authority are within the scope and authority of an ILEC's CC&N. Thus, if the Commission approves the transfer of VCA's local exchange services CC&N and the associated assets to Frontier, the approval to transfer payphone assets and operate payphones will be included. Staff and the Applicants agreed this particular request was unnecessary.

1 **Q. Does Staff support the Applicant's request for waiver of the Affiliated Interest**
2 **Rates⁶?**

3 A. No. Staff does not support the request for a waiver. Staff asked the Applicants to submit
4 the information required by R14-2-803.A.1 to R14-2-803.A.11. The Applicants complied
5 with Staff's request and submitted the requested information to Staff on September 1,
6 2009.

7
8 **Q. Have the Applicants requested a transfer VLD and VES Long Distance CC&Ns to**
9 **the Frontier Long Distance provider?**

10 A. No. VLD and VES serve long distance customers statewide. Pursuant to the agreement,
11 only those customers within VCA's service area will be transferred to Frontier. While
12 VLD and VES have two separate Dockets pending (T-03289A-08-0593 and T-03198A-
13 08-0594) to ultimately discontinue the long distance services CC&N of VLD and VES in
14 Arizona and provide notice to customers pursuant to R14-2-1107, that will not be done
15 until sometime in 2010. Thus, the Frontier long distance provider is seeking a new CC&N
16 to provide service to the long distance customers transferred to it by VLD and VES.

17
18 **Q. Does Staff have all of the necessary information to process the application?**

19 A. Yes. The Applicants and Staff reviewed the CC&N application requirements for the
20 Resale of Long Distance Telecommunications Services and the provisions of Facilities-
21 Based Local Exchange Telecommunications Services and agreed on the missing
22 information elements that the Applicants needed to provided to Staff. The Applicants
23 submitted the additional information requested by Staff on September 15, 2009.
24

⁶Title 14, Chapter 2, Article 8, Public Utility Holding Companies And Affiliated Interests

1 **Q. Did Staff perform analysis to determine if the proposed transaction is in the public**
2 **interest?**

3 A. Yes. Staff issued data requests to obtain information in the areas of (1) compliance with
4 Commission rules and decisions, (2) pending Dockets before the Commission, (3) service
5 quality, (4) customer complaints, (5) legal proceedings, (6) previous rate cases, (7) local
6 exchange service operation specifics, (8) local exchange investment impacts, (9) VoIP
7 technology deployment plans (10) employee impacts, (11) customer notices, (12) Federal
8 and Arizona Universal Services Fund ("USF") impacts, (13) ETC designation and (14)
9 similarities between the proposed transaction and past transactions reviewed and approved
10 by the Commission.

11
12 **Q. Does Staff believe the Applicants to be in compliance with Commission rules and**
13 **decisions?**

14 A. Yes. Upon a review of its 2008 Annual Reports, Frontier identified that it had
15 inadvertently used an out-of-date form and submitted appropriate changes. The
16 Applicants are in compliance with bond requirements, however, Verizon did notice that it
17 had not identified the "Current Amount of Performance Bond" on VLD's 2008 Annual
18 Report and supplied the information to Staff on August 18, 2009. Verizon and Frontier
19 also provided detailed information responsive to Staff's Data Request, STF 1.29⁷,
20 regarding telephone number assignments in Arizona. The Applicants state that to the best
21 of their knowledge they are in compliance with Commission rules and decisions.

22
23 Staff believes that Verizon and Frontier are in compliance with Commission rules and
24 decisions at this time.

25

⁷ For each Applicant and affiliate please provide (a) the quantity of held telephone numbers and (b) explain the corresponding compliance of each entity with the FCC assignment and inventory rules.

1 **Q. Do the Applicants have any pending Dockets before the Commission?**

2 A. Yes. The open or pending Dockets are as follows:

3
4 -As of July 20, 2009, Frontier had three access tariffs pending. The purpose of these
5 filings is to introduce Cross Connect Service, and to make modifications to the
6 Expedited Order Charge and Jurisdictional Determination. These filings should
7 have no bearing on the proposed Application.

8
9 -Frontier also has a formal Complaint⁸ pending. The Complaint should not have any
10 bearing on the proposed Application.

11
12 -VCA is one of the parties in an Underground Conversion Application impacting the
13 Hillcrest Bay Community⁹ located along Lake Havasu, northeast of Parker

14
15 -VLD and VES have open Applications¹⁰ seeking the discontinuation of long distance
16 services in Arizona. Amendments have been filed consistent with the Application in
17 this matter, however, Staff still expects that VLD and VES will seek a conclusion to
18 these Dockets in 2010.

19
20 -On May 14, 2009, VLD filed a tariff¹¹ to grandfather its residential long distance
21 Plan E12 offering. Staff asked that this Docket be administratively closed on July
22 27, 2009.

⁸ T-01954B-07-0247 and T-20526A-07-0247, In the Matter of the Application of Helix Telephone Company for Approval of a Formal Complaint against Citizens Utilities Rural Company, Inc.

⁹ E-01345A-07-0663, T-01846B-07-0663, In the matter of the application of Arizona Public Service Company and Verizon California, Inc. for approval of a joint petition for the establishment of an underground service area.

¹⁰ T-03289A-08-0593 (VLD); T-03198A-08-0594 (VES)

¹¹ T-03289A-09-0236

¹² Plan E is a long distance plan in which residential customers receive a single flat rate per minute, 24 hours a day, seven days a week for all intrastate direct-dialed calling.

1 At this time, Staff has no concerns regarding pending Dockets.
2

3 **Q. What are Staff's findings regarding service quality?**

4 A. In response to a Data Request issued by Staff, Verizon and Frontier provided service
5 quality information in the following areas - (a) Trouble Reports per 100¹³, (b) Repeat
6 Trouble Rate¹⁴, (c) Average Answer Time for Residential Service Order Call Center, (d)
7 Average Answer Time for Repair Call Center and (e) Average Minutes of Central Office
8 Switch Outage per Access Line – for years 2007, 2008 & for the first half of 2009.
9

10 Frontier's results in categories (a), (b), (d) & (e) are similar to those of VCA's. Therefore,
11 Staff has no reason to believe at this time that VCA customers would receive inferior
12 service in the areas measured by Trouble Reports, Average Answer Time for Repair Call
13 Center and Central Office Outages when customers are transferred to Frontier.
14

15 The information provided for (c), however, does raise some concerns. First, VCA's
16 Average Answer Time for Residential Service Order Call Center has been increasing
17 gradually from 40 seconds in 2007, to 50 seconds in 2008, to 107 in the first half of 2009.
18 VCA's Average Answer Time for Residential Service Order Call Center in January 2009
19 was the highest reported to Staff since January 2007 – 239 seconds. It appears, however,
20 that VCA was able to correct its problems by June 2009 when the Average Answer Time
21 for Residential Service Order Call Center dropped to 40 seconds. Staff had expected that
22 the response time would be similar for Verizon and Frontier, however, the 2008 and 2009
23 information provided by Frontier is considerably higher – 195 seconds for 2008 and 177
24 for the first half of 2009. Given the significant differences in average answer time, Staff

¹³ defined as Total Trouble Reports per Month per 100 Lines

¹⁴ defined as Repeat Trouble Reports as a Percentage of Initial Trouble Reports

1 proposes that a condition of the transfer be that Frontier meet the VCA average answer
2 time, so VCA customers not experience any degradation in service quality.

3
4 **Q. Have any complaints been filed against the Applicants at the FCC in recent years?**

5 A. Staff is encouraged that it did not find any complaints at the FCC for Frontier or Citizens
6 since 2006. From 2003 to 2006, Staff found seven complaint proceedings before the FCC
7 of which - two were dismissed, two were resolved, one was denied and two were granted.
8 Both complaints that were granted involved an unauthorized change in an end-user's
9 telecommunications service provider. The FCC did not fine Frontier or Citizens in either
10 case, but simply ordered that all associated charges be removed from the end-users bills.

11
12 For the period January 1, 2008 to July 30, 2009, Staff found 37 complaint proceedings
13 before the FCC. All of the Verizon proceedings involve an unauthorized change in an
14 end-user's telecommunications service provider or a competitor complaint. Staff did not
15 locate any FCC complaints in 2008 or 2009 that pertained to VCA in Arizona.

16
17 **Q. Are there any legal proceedings that are of concern to Staff?**

18 A. Staff is aware of only one legal proceeding against Frontier and none against Verizon in
19 2008 or during the first half of 2009. A lawsuit was filed in the Small Claims Division of
20 the Mohave County Justice Court by a consumer against Frontier Citizens Utilities on
21 May 6, 2009. The lawsuit involves a customer billing and payment dispute that reached
22 mediation on August 12, 2009, without resolution.

1 **Q. Does VCA have an existing moratorium for filing rate cases?**

2 A. Yes. In Decision No. 68348¹⁵, dated December 9, 2005, the Commission Ordered that
3 VCA not seek an increase in basic local exchange rates (residential and business) within
4 its ILEC territory for a period of five years from the effective date of the Order. The
5 moratorium expires on December 9, 2010. Staff recommends that the existing rate
6 moratorium for the VCA service territory remain in effect until the December 9, 2010
7 expiration date.

8
9 **Q. Does Staff have concerns about the impact of the proposed transfer of local exchange
10 service operations?**

11 A. Staff does not have concerns with the scope of the proposed transfer or the ability of
12 Frontier to assimilate these access lines into its operation. Frontier has considerable
13 experience in local exchange operations, and its operation are largely focused in smaller
14 rural areas. In Arizona alone, Frontier has operated three ILECs for several decades.
15 Frontier also has extensive experience across the US in serving mid-size communities.¹⁶
16 The approximate 6,000 of access lines proposed in this transfer equals less than 5 percent
17 of the local exchange access lines Frontier currently holds in Arizona. Therefore, the
18 scope of the transfer should not present incremental burden to Frontier's management and
19 operational resources.
20

¹⁵ In the matter of the application of Verizon California Inc., Verizon Select Services Inc, OnePoint Communications - Colorado, L.L.C. dba Verizon Avenue, Bell Atlantic Communications, Inc. dba Verizon Long Distance, NYNEX Long Distance Company dba Verizon Enterprise Solutions, MCI metro Access Transmission Services, L.L.C., MCI WorldCom Network Services, Inc., TTI National, Inc., Teleconnect Long Distance Services and Systems Company dba Telecom*USA, MCI WorldCom Communications, Inc. and Intermedia Communications, Inc. for approval of a reorganization.

¹⁶ Verizon/Frontier transfer application, page 9, "Frontier also has experience serving mid-size communities including Elk Grove, California, the South Metro of Minneapolis/St. Paul, Minnesota and Rochester, New York."

1 **Q. What is the estimated value of the assets to be transferred in the proposed**
2 **transaction?**

3 A. The stated value of VCA's Total Assets in Arizona is approximately 1.3 percent of the
4 Frontier total. The small Verizon investment level has to do with the focal point of its
5 operations being more California based than Arizona based. For example, VCA does not
6 have call centers in Arizona while Frontier has centers in St. Michaels and Kingman.
7 Frontier has all of its Central Office Switches and Remote Switches within Arizona; VCA
8 only has its Remote Switches in Arizona. The VCA Central Office for the six Arizona
9 communities is located in Blythe, California.

10
11 **Q. Does the VCA central office located in Blythe, California mean that Frontier's**
12 **Arizona operations will be responsible for properties in California?**

13 A. Yes. The proposed transaction will transfer three exchanges in Southern California
14 bordering on Arizona to Frontier - Blythe, Havasu Landing and Big River. These three
15 exchanges serve approximately 9,430 access lines in California. Following the close of
16 the transaction, Frontier field operations and engineering personnel located in Arizona will
17 manage and operate the three former Verizon exchanges in California. It is worth noting,
18 however, that the end-result is the opposite of the management and operations structure
19 that exists today. Currently, the exchanges in Arizona are managed out of California.
20 Thus, approvals by Arizona and California Commissions would result in California
21 exchanges being managed and operated out of Arizona by Frontier.

22
23 **Q. Should the Commission be concerned about the integration of VCA systems and**
24 **technologies with those of Frontier?**

25 A. No. In response to Staff's data request, VCA identified the equipment used in its service
26 territory. Nortel & Alcatel are companies well-known in the telecommunication industry.

1 In addition, Frontier stated in response to a data request¹⁷ that "From an engineering and
2 network operations/planning standpoint, Frontier has had experience acquiring,
3 integrating, and improving the networks of other telephone companies. Transferring
4 Frontier's experience to date in acquiring, improving, operating, and maintaining
5 telecommunications networks to the assets being acquired is a matter of scale and scope,
6 not network technology." Staff finds no reason to disagree.

7
8 Perhaps more important than network equipment and technologies is the ability of Frontier
9 to accept and operate the support systems that are proposed to transfer. Staff understands
10 that Frontier will not need to convert billing and other operational systems at or before
11 closing, therefore, customer service should not be at risk. Staff also understands that
12 Frontier will use the same support systems currently used by VCA to serve its customers
13 and those systems will be transferred to Frontier. As Verizon will continue to provide
14 system support for at least one year after closing¹⁸, and Frontier may elect to take all or
15 some of the support from Verizon after the first year, customer support service risks would
16 appear to be minimum. However, Staff believes that an additional commitment by VCA
17 for system support would be helpful.

18
19 Staff believes that VCA's commitment to support Frontier should be extended as the first
20 year will likely be devoted to understanding the full-cycle of seasonal issues, in other
21 words, one needs a full cycle to understand any changes that need to be made and another
22 full cycle to implement those changes. A second year of support may be needed to modify
23 and integrate the VCA systems with Frontier's.

¹⁷ STF 1.50

¹⁸ July 23, 2009, Applicants' response to STF 1-40, "Frontier will enter into a Software License Agreement with Verizon Information Technologies LLC, under which Verizon will maintain Frontier's systems for at least a year after closing. Subsequently, Frontier may elect to continue to take some or all of the support from Verizon after the first year."

1 **Q. Does Staff have concerns about changes in local exchange service investments?**

2 A. Frontier's investment plans for the VCA service areas are largely unknown, aside from the
3 stated intentions within the Application to apply for broadband funds in accordance with
4 provisions in the American Reinvestment and Recovery Act of 2009. Those funds, if
5 available, will benefit Arizona end-users but may not improve the quality of local
6 exchange services to any measurable degree. Of immediate interest to Staff, therefore, are
7 Frontier's plans and commitment to local exchange service investments in the VCA
8 service areas. Staff performed a comparison of the year to year changes in total assets
9 provided in the annual reports of the Applicants. The change in Frontier's total assets is
10 over +3 percent annually while VCA is below +1 percent. This simple analysis suggests
11 that if Frontier's investment plans in the VCA service areas match the combined history of
12 Frontiers three Arizona ILECs, (which Staff has no reason to doubt) the proposed transfer
13 will be beneficial to end-users. However, rather than make assumptions, the Staff is
14 proposing a condition that Frontier provide its local exchange services investment plans to
15 the Commission for the VCA areas, and that those plans contain expenditures for plant
16 upgrades or expansion that at least match the average investment levels in its existing
17 three Arizona exchanges on a per access line bases.

18
19 In response to a Staff data request¹⁹, Verizon provided confidential investment history for
20 the VCA area but indicated that "Verizon does not develop an annual construction budget
21 on a state specific basis; therefore projected capital investment for 2009 is not available."
22 Staff finds that response unacceptable because all well-organized companies have capital
23 investment plans that project funding needs as far ahead as five years.

24

¹⁹ STF 1.53

1 VCA must have projected capital investment information at the exchange level or, the
2 wire center level which Staff defines as the nine exchanges served by the Blythe,
3 California central office. This information would be helpful to compare with Frontier's
4 plans. Verizon needs to provide a confidential filing to Staff that contains the projected
5 capital investment plans, if not exclusively for the VCA areas in Arizona, for the
6 exchanges served by the Blythe, California central office, before Staff's Rebuttal
7 Testimony is due, so that Staff can undertake this comparison for the Commission.
8

9 **Q. Will the costs associated with the proposed transfer be passed onto the VCA local**
10 **exchange customers or Frontier's local exchange customers?**

11 A. No. Costs associated with the proposed transaction should bear on shareowners as they
12 are the ones who ultimately will receive the financial returns. In response to Staff's data
13 request²⁰, Frontier explained "Frontier affirms that it will not seek to recover through rates
14 any transaction costs associated with this transaction. Further, all of the acquired
15 properties will become part of new entities and not combined with existing Frontier
16 affiliates in Arizona, having their own set of books, revenues, and expenses."
17

18 **Q. Does Staff have a position regarding the broadband investment and services**
19 **potentially linked to this proposed transaction?**

20 A. Yes. Staff is supportive of the broadband investment and services intentions expressed
21 within the Application as the VCA local exchange areas are without wireline broadband
22 service at this time. Staff is supportive of any proposal that will promote broadband
23 deployment and investment in Arizona's rural areas. The VCA areas are largely absent of
24 competitive voice service alternatives. Widespread deployment of broadband by Frontier
25 would make internet services available to end-users in the VCA areas. At the same time,

²⁰ STF 1.51

1 Staff also is aware that such advances are not without competitive risks. Broadband
2 deployment will also open the technological door for 'over the top'²¹ VoIP providers,
3 some of whom could even be Frontier or Verizon internet service provider ("ISP")
4 affiliates. While such alternatives would be welcomed by end-users, such broadband
5 investments should not be at the expense of needed local exchange upgrades or additions.

6
7 Staff recommends at minimum, that Frontier should commit to report to the Commission
8 the provision of VoIP services by any affiliate (1) within the VCA areas proposed in this
9 transaction and (2) within the ILECs of its three Arizona ILECs in the Annual Reports due
10 by April 15th of each year and (3) that Frontier attest that the Arizona state assessments²²
11 for VoIP services provided by any Frontier affiliate have been properly paid. Such
12 attestation should be made as an addendum to Frontier's Annual Reports due by April
13 15th of each year.

14
15 Additionally, Staff recommends a condition requiring Verizon to attest that Arizona state
16 assessments for any Verizon affiliate VoIP services provided in Arizona have been
17 properly paid. Such attestation should be made by all Verizon affiliates holding CC&Ns
18 in Arizona as an addendum to Annual Reports due by April 15th of each year.

19
20 **Q. Does Staff have concerns about the transfer of long distance customers from VLD**
21 **and VES to Frontier?**

22 **A.** Staff does not have concerns. Since customer notices issued in December of 2008
23 explained VLD and VES plans²³ to discontinue long distance services in Arizona, few

²¹ E.g., Vonage, magicJack

²² Utility Fund, 911/E911, Telephone Relay Service ("TRS")

²³ T-03289A-08-0593 (VLD); T-03198A-08-0594 (VES)

1 customers should now remain for transfer. Verizon reported to Staff the number of
2 customers²⁴ that remained with VLD and VES.

3
4 There may have been some customer confusion caused by the multiple notices sent by
5 Verizon to its long distance users. To the degree that end-users see Frontier as a
6 participant in the confusion, Frontier's success in long distance may be compromised.

7
8 Since Verizon intends to maintain its long distance CC&Ns at least into 2010, as discussed
9 earlier Frontier is seeking a new CC&N for the resale of long distance in the VCA area in
10 its Application.

11
12 **Q. What is the status of customer notices that bear on the proposed transaction?**

13 A. Pursuant to the Procedural Order in this matter dated July 13, 2009, the Applicants
14 published the required notice in a newspaper of general circulation in the service area on
15 August 5, 2009, and also mailed a copy of the notice to each customer in the affected
16 service area on August 27, 2009. Staff was provided with a copy of the customer notice
17 and Staff is not aware of any customer complaints or comments in response to the notices.

18
19 **Q. Does Staff have concerns about the employees impacted by the proposed transfer
20 from Verizon to Frontier?**

21 A. Yes. First, the Applicants do not have a final assessment of the number of employees who
22 will be impacted by transfers. Staff understands from Verizon's data request response²⁵
23 that as of June 26, 2009, twenty-two (22) Verizon employees in Arizona would be
24 affected by the proposed transaction. Of the 22 employees, three (3) were pension eligible
25 employees who participate in the hourly pension plan and eighteen (18) were pension

²⁴ Confidential information provided in response to Staff's data request STF 2.3

²⁵ STF 1.48

1 eligible management employees who are participants in the management pension plan.²⁶
2 However, Verizon states in a data request response²⁷ that the “realignment planning
3 process” is not yet finalized and may impact such areas as the Network Operations
4 Centers (“NOCs”). It is not appropriate for the Commission to be asked to expedite its
5 consideration of this matter without having a final assessment of impacts employees.

6
7 There is a second point of concern to Staff. The Applicants state in a data request
8 response²⁸ that “during the first 18 months after the transaction closes, Frontier will not
9 terminate the employment, other than for cause, of any of the current Verizon employees
10 who are actively employed as installers or technicians or are on a leave of absence or other
11 authorized absence with a right to reinstatement.” The statement though well-intentioned
12 leaves room for much misunderstanding. The statement says nothing, for example, about
13 management employees or even non-management employees who might not be ‘installers
14 or technicians’.

15
16 The Applicants should provide to Staff prior to the hearing in this matter a final count of
17 employees impacted and a full understanding of the treatment of such employees. The
18 Commission will then have this important information available when it considers this
19 matter.

²⁶ Per Verizon’s supplemental response to Staff’s first Data Request via email on 9/3/09, 1 employee is a part-time, temporary associate who is not eligible for a pension.

²⁷ STF 1.13

²⁸ STF 1.14

1 **Q. Will Frontier be reliant on Federal and Arizona USF to a greater degree than**
2 **Verizon?**

3 A. Reliance on Federal USF seems likely as Frontier is seeking ETC designation as a part of
4 this Application. VCA and the three Frontier ILECs all receive Federal USF today. VCA
5 does not receive AUSF. One of the Frontier affiliates - Frontier Communications of the
6 White Mountains - does receive AUSF. Frontier's data request response²⁹ that it does not
7 intend to "immediately apply for AUSF support" leaves open the possibility of an AUSF
8 application at any time in the future.

9
10 Should Frontier apply for AUSF funds any time soon, under the current rules the
11 Company would be required to file a rate case. The Verizon moratorium that expires in
12 2010 should apply to Frontier. The Commission proposed a similar condition when
13 Verizon acquired MCI³⁰ in Decision No. 68348, dated December 9, 2005.

14
15 **Q. Does Staff support the Frontier's request for ETC designation?**

16 A. Staff does not object to Frontier's request. VCA currently has an ETC designation as does
17 Frontier's three Arizona ILECs,. Staff has been provided with the all of the appropriate
18 information and recommends that Frontier be assigned an ETC designation for the VCA
19 areas it is acquiring, contingent on the Commissions approval of the proposed transaction.

20
21 **Q. What is Staff's understanding of past transactions approved by the Commission that**
22 **Frontier has not closed?**

23 A. Staff is aware of two major cases brought before the Commission involving Frontier or
24 companies now owned by Frontier that were approved by the Commission but never

²⁹ STF 1.67

³⁰ In the Matter of the Joint Notice of Intent by Verizon Communications, Inc. and MCI Inc., on Behalf of its Regulated Subsidiaries.

1 consummated by Frontier. One case³¹ involved the transfer of the local exchange areas
2 pertaining to this matter from GTE California (now VCA) to Citizens Utilities Rural (now
3 Frontier Citizens Utilities Rural); the second case³² involved the transfer of certain U S
4 West Communications (now Qwest Corporation) rural assets to Citizens Utilities Rural.
5 In both cases, the Commission approved the transfer yet Frontier, or the companies now
6 Frontier, failed to consummate the agreements. Staff asked Frontier to explain why the
7 Commission not be concerned with Frontier's ability to consummated the proposed
8 transaction in light of Frontier's inability to consummate two earlier transactions approved
9 by the Commission.

10
11 "The transaction referenced by Decision 62648 was actually part of a larger
12 transaction where several state sales were closed, such as those in Minnesota,
13 Illinois, and Nebraska. The Arizona properties referenced in that prior transaction
14 did not close, and the transaction terminated. In terms of Frontier's ability to
15 complete significant transactions, Frontier more than doubled its size from
16 approximately 1 million access lines in 1999 to approximately 2.5 million access
17 lines in 2001, primarily through acquisitions. In 2000 Frontier purchased from
18 Verizon/GTE over 300,000 access lines in Minnesota, Illinois and Nebraska. In
19 June 2001, Frontier purchased all of Global Crossings' local exchange carriers,
20 which served approximately 1.1 million telephone access lines. Frontier is an
21 experienced operator of wireline facilities and has substantial experience in
22 integrating dispersed operations into a cohesive business. Frontier has grown
23 through successful acquisitions - through integrating companies into Frontier,
24 through increasing investment, service levels and offerings, and through having a
25 significant local presence in the communities Frontier serves. The Commission's
26 standard for approval is a finding that the current transaction before it is in the
27 public interest. Frontier believes that a review of this transaction by the
28 Commission will result in a finding that the transaction will provide positive
29 benefits for customers and the State of Arizona generally."³³
30

³¹ Decision No. 62648, June 6, 2000, Joint application of Citizens Utilities Rural Company, Inc. d/b/a Citizens Communications Company of Arizona and GTE California Incorporated for approval of the sale of assets and transfer of the Certificates of Convenience and Necessity of GTE California Incorporated to Citizens Utilities Rural Company, Inc.

³² Decision No. 63268, December 15, 2000, Application of U S West Communications, Inc. and Citizens Utilities Rural Company, Inc. d/b/a Citizens Communications Company of Arizona for approval of the transfer of assets in certain telephone wire centers to Citizens Rural and the deletions of those wire centers from U S West's service territory.

³³ STF 1.46

1 "The transaction referenced by Decision 63268 was actually part of a larger
2 transaction where several state sales, beyond Arizona, were involved. The
3 transaction closed for one state – North Dakota – but was terminated for the
4 remaining states. In terms of Frontier's ability to complete significant transactions,
5 Frontier more than doubled its size from approximately 1 million access lines in
6 1999 to approximately 2.5 million access lines in 2001, primarily through
7 acquisitions. In 2000 Frontier purchased from Verizon/GTE over 300,000 access
8 lines in Minnesota, Illinois and Nebraska. In June 2001, Frontier purchased all of
9 Global Crossings' local exchange carriers, which served approximately 1.1 million
10 telephone access lines. Frontier is an experienced operator of wireline facilities and
11 has substantial experience in integrating dispersed operations into a cohesive
12 business. Frontier has grown through successful acquisitions - through integrating
13 companies into Frontier, through increasing investment, service levels and
14 offerings, and through having a significant local presence in the communities
15 Frontier serves. The Commission's standard for approval is a finding that the
16 current transaction before it is in the public interest. Frontier believes that a review
17 of this transaction by the Commission will result in a finding that the transaction
18 will provide positive benefits for customers and the State of Arizona generally."³⁴
19

20 "Frontier has conducted due diligence that resulted in the proposed transaction for
21 which the Applicants are requesting Commission approval. Frontier anticipates
22 spending more in capital expenditures on a nationwide basis than the historical
23 amounts spent by Verizon on the lines to be acquired, based on relevant
24 circumstances such as opportunities for service quality improvement or expansion
25 of services."³⁵
26

27 Staff has no reason to believe at this time that the proposed transfer, once approved by the
28 Commission, would not close or be consummated.
29

30 **Q. Does Staff believe that Frontier has provided the required information necessary to**
31 **process the requested CC&N request and ETC designation?**

32 **A. Yes.**
33

34 **Q. Please summarize Staff's review of the CC&N information?**

35 **A. New Communications of the Southwest Inc. ("NewILEC") is the official name of the**
36 **company applying for the transfer of VCA's Facilities-Based Local Exchange**

³⁴ STF 1.47

³⁵ STF 1.54

1 authorization and New Communications Online and Long Distance, Inc. ("NewLD") is
2 the official name of the company applying for the resale of Long Distance authorization.
3 Both are newly formed "C" corporations and as such do not have independent financials.
4 They will be relying on the resources of their parent, Frontier Communications
5 Corporation, until such time as they seek the Commission's approval to operate otherwise.

6
7 NewLD is adopting the residence and business tariffs of VLD and VES, respectively, and
8 as such Staff does not take exception to any terms or rates within the tariffs.

9
10 NewILEC will be adopting the tariffs of VCA. Staff has reviewed those tariffs and does
11 not take exception to any terms or rates within the tariffs.

12
13 As a newly formed company, NewILEC does not have any history of complaints or legal
14 proceedings. Such matters related to Frontier's parent and affiliates were presented earlier
15 in this testimony.

16
17 Staff recommends the same bond level currently assigned to VLD - \$10,000 - be assigned
18 to NewLD.

19
20 For providers seeking facilities-based local exchange telecommunications services
21 authority, such as Competitive Local Exchange Carriers ("CLECs"), Staff would be
22 typically recommend a bond of \$100,000. Since NewILEC will become the ILEC, if
23 approved by the Commission, it will also have the Carrier of Last Resort³⁶ ("COLR")
24 responsibilities. Staff, therefore, does not recommend a bond for NewILEC.

³⁶ A.k.a., Provider of Last Resort, COLR means the service provider that is obligated to provide basic, local exchange service to a customer in the absence of an alternative service provider. The concept is closely tied to that of Universal Service and ETC requirements. 47 U.S.C. § 254

1 **Q. Please summarize Staff's review of the ETC information?**

2 A. The requirements for designation of ETCs are specified by 47 U.S.C. § 214(e)(1). It states
3 that "A common carrier designated as an eligible telecommunications carrier under
4 paragraph (2) or (3) shall be eligible to receive universal service support in accordance
5 with section 254 and shall throughout the service area for which the designation is
6 received - (A) offer the services that are supported by Federal universal service support
7 mechanisms under section 254(c), either using its own facilities or a combination of its
8 own facilities and resale of another carrier's services (including the services offered by
9 another eligible telecommunications carrier); and (B) advertise the availability of such
10 services and the charges, using media of general distribution."
11

12 In response to Staff's data request³⁷, Frontier affirmed that it would provide each of the
13 services required by the Federal universal support mechanisms under 47 C.F.R. §
14 54.101(a) which include the following:
15

- 16 1. Voice grade access to the public switched network.
- 17 2. Local usage.
- 18 3. Dual tone, multi-frequency signaling or its functional equivalent.
- 19 4. Single party service or its functional equivalent.
- 20 5. Access to emergency services.
- 21 6. Access to operator services.
- 22 7. Access to interexchange service.
- 23 8. Access to directory service.
- 24 9. Toll limitation for qualifying low-income consumers.
- 25

³⁷ STF 1.61

1 Frontier has committed that it will advertise the availability of such services and chares
2 using media of general distribution.

3
4 An ETC carrier must also offer Lifeline and Link Up Service to all qualifying low-income
5 consumers within its service area, pursuant to 47 C.F.R. §§ 54.405 and 54.411(a).
6 NewILEC will offer these services. Frontier has committed to provide Lifeline and Link
7 Up Services to all qualifying low income consumers within the VCA service area.
8 Frontier's new local exchange affiliate will offer services at the rates in contained in the
9 existing VCA tariffs.

10
11 Since the Commission has previously accepted the definition of the VCA service areas as
12 rural and eligible for USF³⁸, Staff believes that NewILEC meets the requirements to be
13 designated an ETC.

14
15 **STAFF'S RESPONSE TO THE APPLICANTS' TESTIMONY**

16 **Q. Did Staff review the testimony of Mr. Timothy McCallion and Mr. Daniel McCarthy,**
17 **filed on behalf of Verizon and Frontier, respectively, on July 15, 2009?**

18 A. Yes.

19
20 **Q. Please summarize Staff's review of Mr. Timothy McCallion's testimony filed on**
21 **behalf of Verizon on July 15, 2009?**

22 A. Mr. McCallion's testimony was consistent with, and supportive of, the Joint Application
23 filed on May 29, 2009. Staff does wish to highlight the following.

24

³⁸ Decision No. 60553, December 8, 1997

1 The Joint Application and Mr. McCallion's testimony use the same language
2 "...NewILEC and NewLD will have the same tariffs and will offer substantially the same
3 regulated retail and wholesale services under the same rates, terms, and conditions..."
4 when explaining how services will be transparent to customers. It was not until Staff
5 received a data request³⁹ response on July 23, 2009, that Staff fully understood the context
6 of "the same tariffs" only a few words removed from the use of "substantially the same".
7 Verizon's data request response makes clear the tariffs will not remain exactly the same.
8 The appropriate tariff(s) will need some modification during this process or tariff revisions
9 will need to be filed following approval of the proposed application.

10
11 "Frontier and Verizon have agreed to exclude a small number of services from
12 those that will transfer to Spinco, and ultimately to Frontier. Examples include
13 non-regulated and/or non- ILEC services such as Iobi (a non-regulated proprietary
14 Verizon service that allows Verizon customers to manage their telephone service
15 via Internet), SmartTouch (a Verizon Long Distance service that allows customers
16 to pre-pay for long distance service), and ONEBILL ® (a free Verizon service that
17 allows customers to receive their Verizon Wireless charges along with other
18 Verizon charges on a single Verizon bill). However, for virtually all regulated
19 services provided by Verizon at closing, Frontier will offer a similar service.
20

21 Mr. McCallion's testimony also references the inclusion of Nevada⁴⁰ VCA properties
22 within NewILEC. This was also referenced in the Joint Application⁴¹ but gained more
23 emphasis in recent discussions between Staff and the Applicants. The Distribution
24 Agreement⁴² that is attached to Mr. McCallion's testimony makes reference to exchanges
25 bordering Nevada⁴³ without being perfectly clear if any exchanges within Nevada will be

³⁹ STF 1.30

⁴⁰ Page 6, Direct Testimony Of Timothy McCallion On Behalf Of Verizon July 15, 2009

⁴¹ Page 5, May 29, 2009, In the matter of the joint application of Verizon California, Inc., Verizon Long Distance, LLC; Verizon Enterprises Solutions, LLC, Frontier Communications Corporation, New Communications of the Southwest Inc., and New Communications Online and Long Distance, Inc. for approval of the transfer of Verizon's Local Exchange and Long Distance Business.

⁴² Distribution Agreement by and between Verizon Communications Inc. and New Communications Holdings Inc. dated as of May 13, 2009

⁴³ Page 21, Distribution Agreement by and between Verizon Communications Inc. and New Communications Holdings Inc. dated as of May 13, 2009

1 transferring to NewILEC. Initially, Staff understood that six (6) Arizona exchanges and
2 three (3) California exchanges bordering on the Arizona border would transfer to
3 NewILEC. Following Mr. McCallion's testimony, Staff understood that two (2)
4 exchanges⁴⁴ in California bordering Nevada would transfer to NewILEC. Continuing
5 discussions with the Applicants further clarified that ten (10) exchanges within Nevada
6 bordering California will also transfer to Frontier and be managed by Frontier's Arizona
7 personnel. In total, Frontier will be acquiring twenty-two (21) exchanges to be contained
8 within NewILEC⁴⁵ with a huge preponderance of the lines in Nevada exchanges⁴⁶
9 immediately south of Carson City, home to the Nevada Public Utilities Commission.
10

11 A final Staff observation is that Mr. McCallion explained some of the key issues that arose
12 in Verizon's transfer of its Hawaii operations to The Carlyle Group ("Carlyle") in 2005,
13 and its New England operations to FairPoint Communications, Inc. ("Fairpoint") in 2008.
14 His point, in summary, is that Frontier is a more experienced and sophisticated
15 telecommunications company than Carlyle or Fairpoint. Staff agrees, but notes that a
16 more valid comparison is between the proposed national transaction of Verizon and
17 Frontier and the acquisition of U S West Communications ("USW") by Qwest
18 Communications ("Qwest"). In both cases, the key similarity is that the acquiring party
19 on a nationwide basis—Frontier and Qwest—was considerably smaller than the properties
20 being acquired—selected properties from Verizon and the entirety of USW. The key
21 concern for this Commission is whether the expanded management and operations role
22 has properly been considered and provided for and, more pertinent, whether the expanded
23 role of Frontier's Arizona management has been properly been considered and provided
24 for.

⁴⁴ Consisting of approximately 1,524 lines

⁴⁵ Frontier provided several confidential exchange maps to Staff that illustrate the exchanges within NewILEC.

⁴⁶ Consisting of approximately 35,989 lines

1 **Q. Are there areas in the testimony of Mr. Daniel McCarthy's that you would like to**
2 **address?**

3 A. Yes. Mr. McCarthy's testimony was consistent with, and supportive of, the Joint
4 Application filed on May 29, 2009, as well as the testimony of Mr. McCallion. However,
5 Staff does wish to highlight the following.

6
7 Mr. McCarthy's testimony presented a table⁴⁷ with the current Frontier access lines in
8 each of its 24 states. At present, Arizona ranks as the 4th largest state in Frontier's
9 portfolio. Staff notes that following the conclusion of the proposed, national transaction
10 Arizona will rank as the 14th highest in Frontier's twenty (27) state portfolio⁴⁸. Staff
11 wonders if the reduced ranking of Frontier's Arizona exchanges within a total access line
12 portfolio that will increase by 218 percent will inevitably result in less upper management
13 oversight for Frontier's Arizona exchanges or a reallocation by investment from Arizona
14 to other states. Frontier Arizona access lines, currently 6.4 percent of the Frontier access
15 line portfolio, will be 2.2 percent upon execution of the proposed, national transaction.
16 This adds to the concern expressed by Staff earlier in this testimony regarding the
17 increased responsibilities that will be placed on the existing management and operations
18 team in Arizona by the addition of VCA service exchange areas, those in California
19 bordering Arizona and Nevada and those in Nevada bordering California. Not only will
20 Frontier's Arizona management and operations be expanded to three states, its regulatory
21 responsibilities will also be expanded to three states. As Mr. McCarthy states in his
22 testimony no additional management resources are planned for Arizona – "Current
23 Frontier management is expected to manage and control the day-to-day operations of

⁴⁷ Page 5, Direct Testimony of Daniel McCarthy Executive Vice President and Chief Operating Officer on Behalf of Frontier Communications Corporation, July 15, 2009

⁴⁸ Frontier Communications, Welcome to the New Frontier, June 18, 2009

1 Frontier and its operating subsidiaries, including the assets transferred to it through the
2 transaction proposed here in addition to Frontier's existing Arizona operations."⁴⁹

3
4 Mr. McCarthy explains Frontier's understanding of the competitive situation faced by
5 Frontier's three Arizona ILECs and VCA. The proposed transaction is represented as a
6 strategy that will address the competitive inroads of wireless and cable providers,
7 however, Mr. McCarthy speaks in such broad terms that Staff is not sure his explanation
8 applies to the VCA areas being proposed for transfer. For example, on page 7 of his
9 testimony, Mr. McCarthy states "Today, the primary competition is coming from the
10 national wireless providers and established cable providers, each of whom are subject to
11 significantly less regulation and many of whom have resources far greater than the
12 average ILEC (including Frontier)."⁵⁰ Staff, however, is not aware of Comcast, Cox,
13 Charter, or Time Warner (the major cable providers) serving in the VCA areas. The
14 access lines to which he refers in several places in his testimony⁵¹, therefore, cannot be
15 attributed to cable providers with "resources far greater" than those of Frontier. Local
16 exchange losses to wireless, however, do fit with Staff's general understanding of the
17 competitive situation. Staff notes that by transferring VCA local exchange areas to
18 Frontier, Verizon Wireless – one of the two largest national wireless providers – will no
19 longer be restrained, even if informally, from competing against one of its former
20 affiliates. While this proposed transaction may enhance Frontier's ability to deliver
21 broadband services, the same proposed transaction may sharpen the competitive focus of
22 perhaps its most key competitor – Verizon Wireless.

23
⁴⁹ Page 8, Direct Testimony of Daniel McCarthy Executive Vice President and Chief Operating Officer on Behalf of Frontier Communications Corporation, July 15, 2009

⁵⁰ Page 7, Direct Testimony of Daniel McCarthy Executive Vice President and Chief Operating Officer on Behalf of Frontier Communications Corporation, July 15, 2009

⁵¹ E.g., page 15, Direct Testimony of Daniel McCarthy Executive Vice President and Chief Operating Officer on Behalf of Frontier Communications Corporation, July 15, 2009

1 Mr. McCarthy explains on page 24 of this testimony that "Frontier has a highly successful
2 track record of acquiring, operating and investing in telecommunications properties
3 nationally, including over 750,000 access lines it purchased from Verizon's predecessor
4 GTE between 1993 and 2000. Specifically, in 2000, Frontier acquired over 300,000 access
5 lines in Minnesota, Illinois and Nebraska. In June 2001, Frontier purchased all of Global
6 Crossing's local exchange carriers, which served approximately 1.1 million telephone
7 access lines in Alabama, Florida, Georgia, Illinois, Indiana, Iowa, Michigan, Minnesota,
8 Mississippi, New York, Ohio, Pennsylvania and Wisconsin. More recently, Frontier
9 acquired and successfully integrated Commonwealth Telephone Company in
10 Pennsylvania and Global Valley Networks in California. The Commonwealth Telephone
11 Company acquisition, which included over 320,000 ILEC lines and over 100,000 CLEC
12 lines, was completed in March 2007. The Global Valley Networks acquisition was
13 completed in October 2007 and included over 12,000 access lines." That Frontier was
14 able to successfully complete several transfers from the 2001 to 2007 is encouraging. It
15 was during this same period that Arizona's dominant ILEC encountered severe economic
16 troubles related to the transfer of USW to Qwest. Staff recalls, however, that the transfer
17 of USW to Qwest was in part based on a similar strategy as that proposed by Frontier, a
18 reduction in dividend⁵² intended to free cash for operations and investments. Staff
19 believes that Frontier should share with the Commission any contingency plans that have
20 been developed to address major changes in business or environmental conditions that
21 could result in severe impacts to Frontier's Arizona local exchanges services in the next
22 five years.

23
24 There is one statement in Mr. McCarthy's testimony that is not supported by either the
25 Joint Application or Mr. McCallion's testimony – "Management employees will continue

⁵² E.g., page 20, Direct Testimony of Daniel McCarthy Executive Vice President and Chief Operating Officer on Behalf of Frontier Communications Corporation, July 15, 2009

1 to receive the same levels of compensation and benefits they receive now from Verizon
2 for at least one year after the transaction closes.”⁵³ This suggests that employees
3 transferring from VCA to Frontier could have their compensation and benefits reduced
4 after one year. Adding to Staff’s concern is Frontier’s response to Staff Request⁵⁴ - “As a
5 result of arms length negotiations, the parties agreed that management employees will
6 continue to receive the same levels of compensation and benefits they receive now from
7 Verizon for *the remainder of the calendar year after the transaction closes*. (emphasis
8 added)” Staff finds either explanation unacceptable.

9
10 Staff recommends that any VCA employee who transfers to Frontier should not have their
11 compensation or benefits reduced for a period of two years following the effective date of
12 a Commission order in this manner.

13
14 **SUMMARY AND CONCLUSIONS**

15 **Q. Does Staff believe the proposed transaction is in the public interest?**

16 **A.** Yes.

17
18 **Q. Please summarize Staff’s proposed conditions for the proposed transaction?**

19 **A.** Staff recommends the following conditions:

- 20
21 1. That NewILEC assume or honor all obligations under VCA’s current interconnection
22 agreements, tariffs, and other existing contractual arrangements of VCA.
23

⁵³ Pages 30 and 31, Direct Testimony of Daniel McCarthy Executive Vice President and Chief Operating Officer on
Behalf of Frontier Communications Corporation, July 15, 2009

⁵⁴ STF 2.6

2. At the conclusion of all pending dockets, that NewILEC comply with all previous Commission orders and all future Commission Orders.
3. That NewILEC maintain the Average Answer Time for the Residential Service Order Call Center response of VCA from January 2008 to June 2009 (69.1 seconds) for the five years following the effective date of an Order in this matter. Evidence of such should be provided annually by April 15th of each year for the prior year.
4. That NewLEC will file in this Docket with the Arizona Commission any California or Nevada Commission Order related to this matter that bears on Frontier's management and operations located in Arizona within 30 days of its issuance.
5. That NewILEC in an annual compliance filing due by April 15th of each year, provide monthly comparative service quality and operating information to ensure that the Frontier Arizona VCA local exchange areas are served comparably to the Frontier California VCA local exchange areas that Frontier has acquired in transactions related to this matter.
6. That for the five years following the effective date of an Order in this matter, Frontier's three Arizona ILECs not allow their monthly service quality and operating performance to decline below their average monthly performance for the period of January 2008 to June 2009. Evidence of such should be provided annually by April 15th of each year for the prior year.

- 1 7. That the annual ratio of NewILEC complaints to access lines remain the same as the
2 annual ratios of VCA for the 2006 through 2008 period. Evidence of such should be
3 provided annually by April 15th of each year for the prior year.
4
- 5 8. That the existing rate moratorium for the VCA service territory remain in effect until
6 the December 9, 2010 expiration date, as ordered by Decision No. 68348.
7
- 8 9. That NewILEC commit to local exchange investment levels on a per access line basis
9 that at least equals the average investment per access line of its three Frontier Arizona
10 ILECs for the five years following the effective date of an Order in this matter.
11
- 12 10. That Frontier report to the Commission (1) the number of VoIP lines served by any
13 Frontier affiliate within the NewILEC service area and by Frontier's three Arizona
14 ILECs by April 15th of each year and (2) that Frontier attest that the Arizona State
15 assessments⁵⁵ for VoIP services provided by any Frontier affiliate or ILEC have been
16 properly paid. Such attestation should be made as an addendum to Frontier's Annual
17 Reports due by April 15th of each year for the prior year.
18
- 19 11. That Verizon attest that Arizona state assessments for any VoIP services provided by
20 Verizon affiliates in Arizona have been properly paid. Such attestation should be
21 made by all Verizon affiliates holding CC&Ns in Arizona as an addendum to Annual
22 Reports due by April 15th of each year.
23

⁵⁵ Utility Fund, 911/E911, Telephone Relay Service ("TRS")

1 12. That the Applicants provide a final count of employees impacted by the proposed
2 transfer and comprehensive explanation of the treatment of such employees before an
3 Order is issued in this matter.

4
5 13. That for one year following the close of the proposed transfer or until Verizon and
6 Frontier inform the Commission by filing an affidavit with Docket Control, as a
7 compliance item in this Docket, that the proposed transaction activities are completed,
8 Frontier shall provide written notification with a filing in Docket Control and to the
9 individual members of the Commission 60 days prior to any planned transfer-related
10 Arizona workforce layoffs; any planned transfer-related Arizona plant closings; and
11 any planned transfer-related Arizona facility closings.

12
13 14. That if any Frontier Arizona affiliate chooses to conduct layoffs or facility closings in
14 Arizona that are attributable to the proposed transfer, it shall file a report, within two
15 months of the effective date of the layoffs or closings, with the Commission stating
16 why it was necessary to do so and what efforts the Company made or is making to re-
17 deploy those individuals elsewhere in the Company. This report shall also state
18 whether any savings associated with facility closings have been re-invested in the
19 Company's Arizona operations, and if not, why. This report shall be filed for one year
20 following close of the proposed transfer or until Frontier informs the Commission by
21 filing an affidavit with Docket Control that transfer related activities are completed,
22 whichever comes last.

23
24 15. That within 60 days of the transaction's consummation, Frontier and Verizon notify
25 the Commission of such closing.
26

- that the Commission approve the transfer of long distance customers from VLD and VES to NewLD within the local exchange service areas of VCA, grant a waiver of the Commission's Slamming Rules⁵⁶ in connection with the transfer, and grant a Long Distance Reseller CC&N to NewLD;
- that the Commission allow NewILEC to adopt the tariffs of VCA and allow NewILD to adopt the tariffs of VLD and VES;
- that the Commission designate NewILEC in the service areas proposed for transfer as an Eligible Telecommunications Carrier ("ETC") with the same status as VCA;
- that the Commission approve the transfer of assets pursuant to A.R.S. § 40-285 and take such other measures and provide any additional approvals as the Commission may deem necessary to allow the parties to complete the transaction;

Q. Does this conclude your direct testimony?

A. Yes, it does.

⁵⁶ AAC R14-2-1901 et seq., Consumer Protections For Unauthorized Carrier Changes